EQUITY RESEARCH

Realm Resources Limited

Delivering on target for production in mid-2012

- RRP has successfully acquired a 51% stake as a first step in its acquisition of 75% of the Katingan Ria (KR) thermal coal project located in Central Kalimantan, Indonesia. This follows a $15m equity raising in September 2011.
- The appointment of Andrew Matheson, an experienced coal professional, as MD will bring significant coal development experience to the executive team.
- The company remains on track to commence operation by July 2012, ramping up to 5.0mtpa on a base case.
- KR thermal coal is a low to mid rank coal which has a target market in India, China, South Korea and other Asian countries. These countries are rapidly expanding coal fired power generation with boilers that are suited to low to mid rank coal.
- The project has low infrastructure costs and local partners who are seeking domestic expansion opportunities.

Katingan Ria acquisition and production timetable

- A $12.6m payment for a 100% control of Kalres and a 51% interest in the Katingan Ria Project has been made by RRP. The total consideration for the KR project acquisition is US$29.6m for a 75% interest which is likely to have an initial mine life of 15 years.
- A JORC compliant resource upgrade in the south area (40.1Mt) to indicated status and the release of a maiden resource on the north area is due by the end of the calendar year. We continue to estimate combined resources of ~100Mt resulting in an ultimate reserve of ~70Mt of 4200 to 4500 GAR coal.
- KR has been granted the IUP operations permit and is now seeking the Forestry production permit, as the last pre-requisite for commencing production.
- We anticipate that the feasibility study will be completed in MQ12 along with the Forestry production permit approval. We anticipate that the additional 24% acquisition of KR for US$17m and RRP's share of anticipated capital costs of $20m will be funded from a combination of debt, pre-sold ore and equity.

Recommendation

- We maintain our BUY recommendation and a DCF valuation of 44cps based on our assumptions on the project's resource potential providing a 15 year mine life, plus a nominal value for the existing South African PGM and Aluminium assets in.
- Our medium term price target also remains unchanged at $0.22 per share, which is a 50% discount to our full valuation as we await feasibility and final funding completion.

RRP.ASX BUY

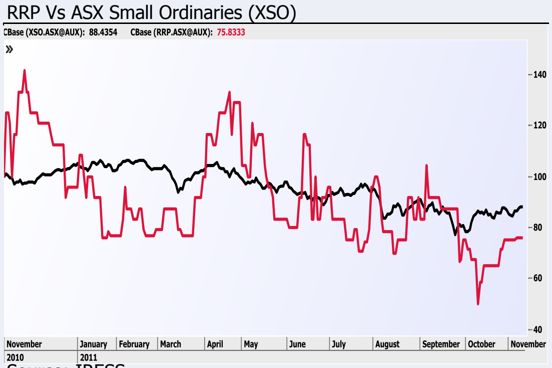
10 November 2011

Price	A$	0.09
Price Target (50% of Valn.)	A$	0.22
Valuation	A$	0.44
Valuation Method		DCF
GICS sector		Metals & Mining
Market Cap*	A$m	53
Shares on Issue*	m	583.9
EV	A$m	49
Previous rating		BUY

* FD + funding assumptions

Year Ended December 31		12e	13e	14e	15e
Production - project	Mt	0.6	2.4	4.5	5.0
Production - nett	Mt	0.5	1.8	3.4	3.8
Sales revenue	US$m	31.5	96.8	205	212
EBITDA	US$m	9.7	25.1	81.2	72.5
EBITDA margin	%		26.0	39.5	34.2
Reported NPAT	US$m	6.7	15.7	58.9	52.6
Reported NPAT	A$m	6.6	17.2	69.3	61.9
EPS adj	Ac	1.1	2.9	11.9	10.6
EPS adj growth	%		159	304	-11
DPS	Ac	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0
PER	x	8.0	3.1	0.8	0.9
Dividend yield	%	na	na	na	na
EV/EBITDA	x	5.0	1.9	0.6	0.7
ROA	%	16.8	27	130	125
ROE	%	12.1	21.9	45.2	28.8
Debt / Debt + equity	%	6.3	na	na	na

RRP Vs ASX Small Ordinaries (XSO)



Source: IRESS

NB: All figures in this report are in USD unless specified

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Realm Resources Limited

Share Price $0.09 **Valuation $0.44**

Profit & Loss

Year ending December		**2012e**	**2013e**	**2014e**	**2015e**
Sales	US$m	31.5	96.8	205.3	212.3
Op. costs	US$m	16.5	63.5	109.8	126.4
Royalty	US$m	1.3	3.1	9.3	8.4
Corporate	US$m	3.5	4.0	4.0	4.0
Exploration Writeoff	US$m	0.5	1.0	1.0	1.0
EBITDA	US$m	**9.7**	**25.1**	**81.2**	**72.5**
Dep/Amtz	US$m	2.0	5.8	5.9	5.9
EBIT	US$m	**7.7**	**19.3**	**75.3**	**66.6**
Net Interest	US$m	0.2	0.3	1.4	4.5
Pre-Tax Profit	US$m	**7.9**	**19.6**	**76.7**	**71.1**
Tax Provision	US$m	1.2	3.9	17.8	18.5
Net Profit/(Loss)	US$m	**6.7**	**15.7**	**58.9**	**52.6**
Abnormals	US$m	0.0	0.0	0.0	0.0
Reported Net Profit	US$m	6.7	15.7	58.9	52.6
Reported Net Profit	**A$m**	**6.6**	**17.2**	**69.3**	**61.9**

Balance Sheet

Year ending December		**2012e**	**2013e**	**2014e**	**2015e**
Cash	US$m	15.6	13.2	85.2	141.0
Receivables	US$m	0.5	0.5	0.5	0.5
Fixed assets	US$m	42.4	57.6	53.1	48.6
Other assets	US$m	2.4	2.4	2.4	2.4
Total Assets	US$m	**60.9**	**73.8**	**141.2**	**192.5**
Creditors	US$m	0.4	0.4	0.4	0.4
Borrowings	US$m	3.8	0.0	0.0	0.0
Other liabilities	US$m	1.0	1.9	10.5	9.1
Total Liabilities	US$m	**5.1**	**2.3**	**10.9**	**9.5**
Net Assets	US$m	**55.8**	**71.5**	**130.4**	**183.0**
Share capital	US$m	60.8	60.8	60.8	60.8
Retained earnings	US$m	-5.3	10.3	69.3	121.9
Shareholders Funds	US$m	**55.8**	**71.4**	**130.4**	**183.0**

Cashflow

Year ending December		**2012e**	**2013e**	**2014e**	**2015e**
Sales Revenue	US$m	29.3	94.5	203.1	210.0
Less Outflows	US$m	-16.5	-63.5	-109.8	-126.4
Prod. costs in exc. sales	US$m	-4.8	-7.1	-13.3	-12.4
Net interest	US$m	0.2	0.3	1.4	4.5
Income tax paid & other	US$m	2.3	-0.8	-7.0	-17.6
Operational Cash Flow	US$m	**10.4**	**23.4**	**74.4**	**58.1**
Exploration	US$m	-2.0	-2.0	-2.0	-2.0
Capex	US$m	-20.6	-20.1	-0.4	-0.4
Asset (Purchases)/Sales & other	US$m	-7.6	0.0	0.0	0.0
C/Flow from Investing	US$m	**-30.3**	**-22.1**	**-2.4**	**-2.4**
Dividends paid	US$m	0.0	0.0	0.0	0.0
Debt (Repay)/Borrowings	US$m	3.8	-3.8	0.0	0.0
Equity Raised	US$m	25.0	0.0	0.0	0.0
Other	US$m	0.0	0.0	0.0	0.0
C/Flow from Financing	US$m	**28.8**	**-3.8**	**0.0**	**0.0**
Cash at Beginning	US$m	10.2	6.2	49.3	112.5
Net Increase/(Decrease)	US$m	8.9	-2.4	72.0	55.8
Cash at end	US$m	**15.6**	**13.2**	**85.2**	**141.0**

Company Description

RRP is seeking to develop the Katingan Ria thermal coal project in Indonesia at a base rate of 5Mtpa after acquiring a 75% interest in DH11. The company also has PGM asssets in South Africa and an Aluminium dross business in South Africa

Market Measures

Year ending December		**2012e**	**2013e**	**2014e**	**2015e**
EPS adjusted	Acps	1.1	2.9	11.9	10.6
EPS growth	%		159	304	-10.7
PE multiple	**x**	**8.0**	**3.1**	**0.8**	**0.9**
CFPS	Acps	1.4	4.0	14.6	11.3
CF multiple	x	6.4	2.3	0.6	0.8
DPS	Acps	0.0	0.0	0.0	0.0
Dividend Yield	%	na	na	na	na
Enterprise value	A$m	3.3	0.5	-85.2	-150.8

Profitability & liquidity ratios

Year ending December		**2012e**	**2013e**	**2014e**	**2015e**
ROE	%	12	22	45	29
ROA	%	17	27	130	125
NPAT / Sales	%	21	16	29	25
EBITDA / sales	%	31	26	40	34
Gearing (D/[D+E])	%	6	na	na	na

Valuation

		dr @ 10%		**dr @ 5%**	
	Equity	**A$m**	**A$ps**	**A$m**	**A$ps**
Katingan Ria	75%	233.2	0.40	298.9	0.51
Other		0.0	0.00	0.0	0.00
Exploration - PGM + Aluminium		25.0	0.04	25.0	0.04
Option conversion		0.0	0.00	0.0	0.00
Cash		5.1	0.01	5.1	0.01
Total Borrowings		-0.4	0.00	0.0	0.00
Corporate/Other		-4.6	-0.01	-3.9	-0.01
Total Valuation		**258.4**	**0.44**	325.1	0.56

Attributable Production

Year ending December	**2012e**	**2013e**	**2014e**	**2015e**
Katingan Ria (mt)	0.45	1.76	3.38	3.75
Other	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total Attrib. Prod. (mtpa)	**0.45**	**1.76**	**3.38**	**3.75**
Op. Costs (US$/t)	39.5	37.8	35.3	35.9
Op. Costs Other (US$/t)	0.0	0.0	0.0	0.0
Total Op. Costs (US$/t)	**39.5**	**37.8**	**35.3**	**35.9**
Cash margin (US$/t)	25.5	22.2	25.0	20.1

Price Assumptions

Year ending December	**2012e**	**2013e**	**2014e**	**2015e**
Exchange Rate (A$/US$)	1.02	0.91	0.85	0.85
Newcatle thermal index (US$/t)	130	120	109	100
Katingan coal (US$/t)	65	60	60	56

Mining Inventory

	Company	**Veritas estimate**
	Mt	Mt
Katingan Ria	36.0	70.0
Other	0.0	0.0
Total	**36.0**	**70.0**

NB Company estimate is south region only, Veritas estimate is north and south areas

Katingan Ria Project (51%, acquiring 75%)

Feasibility study

With the low infrastructure costs in Indonesia, the feasibility study is principally limited to mine design and export logistics. Below are some of the key parameters to be completed for the feasibility study:

The feasibility is due in MQ12

- Aerial survey work across the site to provide a detailed topographic map for improved definition of resource estimates and for civil design of haul road, ROM pads etc.
- Further infill drilling in both the north and south areas to improve definition of the resources to indicated and allow estimation of reserves to JORC guidelines.
- Establishing barge load out and intermediate stockpile locations.
- Barging, river and transshipping logistics.
- Completion of process for granting of the Forestry production permit (Pinjam Pakai Exploitation licence), covering 1,500 hectares.

We anticipate that the feasibility study will be completed early in MQ12.

Funding to first production

We have assumed in our DCF valuation that the capital cost of the full 5Mtpa operation will be $53m, to be completed in two stages. Our stage 1 capex estimate of $27m is sufficient for production to commence in mid-2012. RRP's share of stage 1 capex is $20m which we assume to be funded from debt and/or pre-sold ore to provide $10m, and equity and existing cash to provide $10m. We assume RRP will require additional equity of $25m (at an assumed issue price of 18cps), which will be used to pay the additional $17m required for acquiring 75% of Katingan Ria and the remaining capital cost of stage 1.

South African PGM assets

The company continues to await South African Department of Mineral Resources approval for the 2009 acquisition of three Eastern Limb PGM projects, of which the Kilprivier project is the most advanced.

Kliprivier project (47.5% acquiring rights to 74%)

The Kilprivier project resource is open pittable

The Kilprivier project is located on the Eastern Limb of the Bushveld. The project has an inferred UG2 resource of 109.6 Mt @ 2.3 g/t (3PGE+Au) containing 7.6 Moz 3PGE+Au or 6.46Moz. This is after applying a 15% discount factor from surface over a 6km strike length on the 3,300ha permitted share of Kliprivier.

Final sign off by the SA Mines Department will see the full 74% held by RRP, resulting in a further 50m RRP shares being issued to the vendors. The PGM resource is initially open pittable, which will allow for a low cost operation should the economics prove viable.

PGM projects current status

While RRP are currently assessing ways to maximize the value of the projects including the development potential of an open pit operation on the Kliprivier project, we foresee that any potential funding for an operation will be from an incoming party, as RRP are now focused on the Kantinga Ria coal project.

We currently value the three projects at US$20m, based on an inground resource value of US$3/oz.

Investment Summary

(from initiation report 29/08/11)

RRP are seeking to become a mid-tier coal producer with its first project located in Central Kalimantan, Indonesia. The company is aiming for first production in mid-2012 with a ramp up to an annualized rate of 5.0Mtpa over a 15 year life of mine.

We place a 6 month price target on RRP of $0.22 per share

We recommend a BUY and place a medium term price target on the Company of A$0.22 per share fully diluted for our assumptions, which is at a 50% discount to our full valuation at first production. We have assumed a debt to equity ratio for the funding of the project of 40:60. Upon the completion of a feasibility study in DQ11, permit approvals and full funding for the project development, we currently value RRP at $0.44 per share.

First production is planned for JQ12

The Katingan Ria development is budgeted at $53m for a 5.0Mtpa operation, comprising: minimal site infrastructure; contract crushing at the barge point on the Katingan River; and an intermediate load out point for transferring from 180 foot to 300 foot barges for final river transport and trans-shipment to the mother vessel. The deposit is likely to have an average strip ratio of 3:1. The capital intensity is low at $10.6/t.

We assume reserves of 70Mt

The current inferred JORC resource released by RRP totals 40.1Mt of mid rank thermal coal in the southern region of the licence. Drilling is currently being completed in the northern region, which we anticipate will provide a further 50Mt to 60Mt in resource. The combined areas are likely to convert into a 70Mt reserve sufficient for the planned 5.0Mtpa base case scenario. The southern area consists of one main seam with widths of 1.9m to 5.2m. The northern region consists of 4 to 5 seams with cumulative widths of 11.0m.

Production of low to mid rank coal is backed by strong demand fundamentals

India's imports are set to increase to approximately 200Mt in 2015

The export market for Katingan coal is likely to be India, South Korea and China, all of which have increased their imports of low to mid rank thermal coal to supply internal burgeoning power supply needs. In India, the market for low to mid rank coal has increased at 49% per annum since 2005 as large coastal power plants are constructed utilizing imported coal. Planned power plant developments are likely to see India's imports increase from 67Mt in 2010 to approximately 200Mt in 2015.

Indonesia has profited from the rush to low to mid rank coal, as coal reserves can be exploited with minimal infrastructure, unlike other exporting countries such as Australia, Russia and Columbia. Indonesian coal exports increased from 128Mt in 2005 to 271Mt in 2010. Annual coal export forecasts to 2015 are estimated to increase to +350Mt.

The Katingan Ria project is highly leveraged to coal price movements

The Katingan Ria project is highly sensitive to variations in our Katingan coal price forecasts with a $5/t and $10/t fluctuation having a respective positive or negative 32% and 64% impact to our NAV.

We see the Katingan Ria project as a starter project for RRP as they build a mid-tier coal company.

RRP management has extensive experience with incoming Managing Director, Andrew Matheson heading a team that is experienced in coal mining, development of coal assets and local knowledge in Indonesia. The Katingan Ria project we see as a starter project for the company as the board and management build a mid-tier coal company with a target market capitalization of $1bn to $5bn.

Key Investment Drivers

- Near term production targeted for mid-2012.
- Experienced management seeking to build a mid-tier coal company.
- Reserve and resource upside targeting a mine life of 15 years.
- Strong cash generation from production.
- Scale to provide leverage with near term production ramping up to 5.0Mtpa as a base case.
- Positive export demand outlook for low to mid rank coal into Asia and India.

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RATING

BUY – anticipated stock return is greater than 10%
SELL – anticipated stock return is less than -10%
HOLD – anticipated stock return is between -10% and +10%
SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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